NORTH CAROLINA STATE TREASURER RICHARD MOORE'S STATEMENT TO CONGRESS ON JULY 18, 2002

I come before you as North Carolina's elected guardian of the state treasury, and as the sole trustee of $62 billion in public money, most of which is the pension funds for the 600,000 active and retired public workers of our great state – the teachers, fire and rescue workers, nurses, police officers, sanitation workers, and state and local government employees of North Carolina. And, I have come here today as an owner who needs help exercising the full rights of ownership – nothing more, nothing less.

As a student of history, I recognize that capitalism has never been totally unrestrained in this country. Those leaders who have championed capitalism and the building of economic markets have understood that unregulated and unchecked, a pure laissez-faire marketplace is a dangerous thing. In arguing that markets could never regulate themselves, Alexander Hamilton wrote in his 7th Federalist paper that "the spirit of enterprise" when "unbridled," leads to "outrages, and these to reprisals and wars." He later stated that we Americans had "a certain fermentation of mind, a certain activity of speculation and enterprise which if properly directed may be made subservient to useful purposes; but which if left entirely to itself may be attended with pernicious effects."

This mindset put forth by the founders of our nation has always been understood by our nation's leaders. Agreeing with President Theodore Roosevelt, President Woodrow Wilson felt that without "the watchful interference, the resolute interference of the government, there can be no fair play between individuals and such powerful institutions as [corporations]."

The Hamiltonian views were again embraced after the Great Depression. The deep corruption of our public markets brought about the passage of the securities acts of 1933 and 1934 and the passage of the Glass Steagell Act. I am extremely proud that my grandfather, Frank W. Hancock, Jr., as a business-oriented member of the House Banking Committee, played a significant role in drafting and championing many pieces of these necessary reforms.

The result of these and other reforms produced a stable and fair public marketplace that has been the envy of the world for almost 70 years.

It is important to remember that we are addressing regulations that apply <u>only</u> to public companies, and that no one forces a company to become public. The choice to do so means that its corporate leaders voluntarily give up some of their autonomy and agree to be regulated. The trade off, which has been a significant advantage over the last 20 years, is that those companies may access additional capital at a discount to traditional sources. Even today, most businesses in this country – those located on main streets across America – are not publicly regulated, and when they need additional capital, they must pay a premium for it.

Publicly traded companies have been and must be regulated to make sure that the individual investor can properly value his/her risk before an ownership decision is made. This obvious point has been overlooked by some who fret that additional government regulation will foul the market.

Today, more than 80 million Americans have decided to take part in these public markets. Either directly or indirectly through mutual funds and other pension plans, they have placed their hard earned savings in these marketplaces. This in itself is remarkable. They have been enticed through tax policy and professional advice to participate and share in the American dream. It is not your job, nor is it the job of corporate America, to insure that this dream comes true. However, it is your job to make sure that the marketplace is fair to all so that this dream does not turn in to the nightmare of losing the family nest egg.

Our markets today contain approximately $12 trillion in assets. More than $2 trillion of that is held by pension funds like the one that I run in North Carolina. Approximately $8 trillion of this marketplace is controlled by mutual funds. Many of the largest investors in mutual funds are pension funds, so we institutional investors have tremendous market clout – clout that I do not think we have yet fully utilized to bring about positive change.

Institutional ownership has evolved over the last 30 years. As a result, we find ourselves collectively as the largest stockholders in virtually every major company in America. The founder, or the founder's descendents, in many instances are no longer seated at the board table advocating – out of self-interest – for the interest of shareholders. It truly is often a setting where people spend other people's money.

We must act like the "owners" that we are. However, we cannot do it alone. We need Congress and the Administration to help make sure we can properly exercise our prerogatives of ownership. We need your help to make sure that we can tell whether the interest of management and shareholders are properly aligned. We need your help in making sure that we, as investors, can properly price risk. We need your help to make sure the cop on this particular beat has the resources and tools needed to do their job effectively.

We need your help now more than ever. The events of the last few months have shown that our system is currently missing effective and necessary checks and balances to insure that the fine line between proper incentive and destructive greed is not crossed. I firmly believe that the vast majority of today's corporate managers are smart and honest, but it is disconcerting to see so many unmasked not as captains of industry, but as captains of greed, with callous disregard for the welfare of the people whose money grows their company.

Simply put, we know that the fox, no matter how well meaning, cannot guard the hen house. At some point, temptation prevails. Without proper regulation, history has proven that hard working Americans always pick up the tab – the Great Depression, the savings and loan debacle, and most recently, the power shortage in California.

In carrying out my fiduciary duty to my 600,000 beneficiaries, we have begun to more actively exercise our rights of ownership. Last month, I was joined by the Comptroller of New York, H. Carl McCall, the Treasurer of California, Philip Angelides, and the Attorney General of New York, Eliot Spitzer, to announce important investment protection principles. These proposals embody simple, common sense, market-based solutions to some of the problems that we face. We, as owners exercising our ownership rights, have put new terms on the table – if you want our money, this is what we need from you. We are demanding that broker/dealers and money managers eliminate actual and potential conflict of interest from the way they pay analysts and conduct their affairs. We are asking the money managers we utilize to look closer into the areas of financial transparency and corporate conduct. As fiduciaries, we must and will become more assertive in our ownership role.

To date, we have been joined by several other large funds in our initiative, with more who will likely follow.

As investors, we cannot properly price our risk without getting fair and accurate information regarding financial transparency and corporate conduct. We must be able to assess accurate earnings and the future impact of corporate incentives on those earnings. You have already signaled your intent to help us in these areas, and for that I thank you.

In some area, we need specific prohibitions. In other areas, this may be unwise. I ask that in areas where you feel outright prohibition is unwarranted, do make disclosure standards tougher. Just as Congress has done in food labeling and other areas, it is prudent and appropriate to require that certain financial information be prominently displayed in plain language in proxy statements and annual reports. If you will help the large and small investor alike learn how to find the information needed to properly price "option overhangs" and "option run rates," the market will then go a long ways in ridding itself of truly abusive practices.

In the past twenty-five years, retirement savings have been systematically shifted from defined benefit to defined contribution plans. While this shift has been highly profitable to the mutual fund industry and corporations, it has not strengthened overall retirement savings. The 401(k), IRA and Roth IRA are excellent *supplementary* savings plans. However, they are insufficient, as has been evident in the past two years, for many Americans attempting to prepare for a comfortable retirement.

Moreover, defined contribution plans leave matters of corporate governance and transparency in the hands of individuals who have little time or money to study these issues. In 401(k) plans, these issues are left in the hands of trustees who have little incentive to press mutual fund managers or the underlying companies. Ownership in equities is a proven way to build retirement wealth. However, it requires careful attention to the demands of ownership.

I urge Congress to enact legislation promoting the expansion and establishment of defined benefit plans. These plans are the foundation of retirement security, and without them, I fear many hard working Americans will face difficult retirement years. These plans should be portable. We must recognize that lifetime employment is no longer feasible or practical in our modern economy. These plans need to run on assumptions that are realistic and fair.

The importance of the tasks before us cannot be overstated. We must restore investor confidence. It is the pillar on which one of the great institutions of our society rests – the open and fair marketplace.